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Internal Revenue Service

Department of the Treasury Date 1/23/97

Surname [REDACTED]

Washington, DC 20224

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: CP:E:EO:T:5

Date: OCT 15 1996

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
Employer Identification Number: [REDACTED]
Key District: Southeast (Baltimore MD)
Tax Years Involved: [REDACTED]

.Dear Applicant:

We have considered your Form 1024, Application for Recognition of Exemption under Section 501(a), requesting your exemption from federal income tax as a business league under section 501(c)(6) of the Internal Revenue Code.

You are an [REDACTED] corporation incorporated [REDACTED]. Your annual tax years end on December 31.

Your purpose is to negotiate terms for a health care plan with medical providers on behalf of member employers and member medical providers who join your organization for health care providing purposes. You encourage members to reduce costs by recommending that they use the common Plan supervisor company that you select. You employ a director, secretary, and a full-time utilization review nurse and a part-time medical director.

You serve any smaller employer in counties near [REDACTED]. Certain hospitals and medical providers also agree to your standards and terms for providing medical care to the employees of your member employers. The providers seek the medical business of your member employers' employees. You indicate that about [REDACTED] employees and their [REDACTED] dependents benefit from your particular services. Your brochure says that you are a Preferred Provider Organization for your membership.

You are supported financially primarily by fees that are paid by your employer members and that are based primarily upon the number of employees of each member employers. Your Bylaws provide that none of your earnings will be paid to your members but that, upon any dissolution, your assets will be given to a tax-exempt business league of your choice.

Your governing board of [REDACTED] voting directors includes [REDACTED] persons to represent member employers, [REDACTED] to represent member physicians, and [REDACTED] to represent two member hospitals. You also hire a for-profit company, such as [REDACTED] to assist you in this health care program between your member employers and medical providers.

Section 501(c)(6) of the Code provides, in pertinent part, for the exemption from federal income tax of "business leagues", not organized for profit, and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations requires that a business league's activities must be directed to the improvement of business conditions of one or more lines of business, as distinguished from the performance of particular services for individual persons or companies.

Section 1.501(c)(6)-1 of the regulations also states that an organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit does not qualify as a business league, even if the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining.

Revenue Ruling 74-81, 1974-1 C.B. 135, concerning member businesses seeking workmen's compensation insurance, holds that a nonprofit membership organization that arranges for insurance for its member businesses is providing a convenience or economy for its member businesses because it "relieves the members of obtaining this insurance on an individual basis, resulting in a convenience in the conduct of their businesses." Therefore, the organization is rendering "particular services" for individual businesses, as distinguished from an exempt activity of promoting business conditions in general.

Revenue Ruling 66-151, 1966-1 C.B. 152, holds that management of a health benefit plan, in return for fees paid by member employers, is an "unrelated business" for a business league under section 501(c)(6) of the Code. The management fees were based on the number of employees in the plan. The management of the health benefit plan constituted the performance of particular services for fees under section 1.501(c)(6)-1 of the regulations and, thus, goes beyond an exempt activity to promote one or more lines of business under section 501(c)(6) of the Code.

Similarly, Steamship Trade Association of Baltimore, Inc. v. Commissioner, 757 F.2d 1494 (4th Circuit, March 27, 1985), affirming the Tax Court's decision of 81 T.C. 303 (1983), states that it confirms the holding of the above Revenue Ruling 66-151 that the management of health benefit plans for member employers constitutes a business service that is unrelated to the exempt purposes of a business league under section 501(c)(6) of the Code.

Based on the information submitted, we find that your primary activity is the negotiation of a health care benefit program for your member employers who pay you fees based mainly upon the numbers of their employees. Although a for-profit company may assist you, you are engaged in arranging and maintaining this particular service for members.

Similar to the organizations in Revenue Rulings 74-81, 66-151, and Steamship Trade Association of Baltimore, Inc. v. Commissioner, you are engaged in providing a particular business service as a convenience and economy to your members, rather than promoting, in general, a specific industry or line of business. The fact that a for-profit company also assists you in providing the particular service does not alter the fact that your primary purpose is to provide a particular cost reduction planning service for your member businesses. Your services for members are a nonexempt purpose under section 501(c)(6) of the Code and section 1.501(c)(6)-1 of the regulations.

Accordingly, we rule that you do not qualify for exemption from federal income tax under section 501(c)(6) of the Code. Thus, you remain subject to the applicable requirements for filing federal income tax returns.

You have a right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, that person must have on file a proper power of attorney, such as Form 2848, and otherwise qualify under our Conference and Practice Procedures.

If we do not hear from you within 30 days from the date of this ruling letter, this ruling will remain in effect, and a copy will be forwarded to your key district office for exempt organizations. Thereafter, any questions about this federal income tax matter or the filing of federal tax returns should be addressed to that your key district office. We are sending a copy of this letter to your attorney of record in this case.

[REDACTED]

If you submit a protest statement with respect to this case,
please address your reply envelope directly to our office address
below:

Internal Revenue Service
Exempt Organizations Technical Branch 5
CP:E:EQ:T:5, Room 6539, [REDACTED]
1111 Constitution Avenue, N.W.
Washington DC 20224

Sincerely,

(signed) Garland A. Carter

Garland A. Carter
Chief, Exempt Organizations
Technical Branch 5

cc: [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

cc: DD, Southeast (Baltimore MD)